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SCI Engineered Materials, Inc. Reports 2022 First Quarter Results

COLUMBUS, Ohio (May 4, 2022) SCI Engineered Materials, Inc. (“SCI”) (SCIA: OTCQB), today reported financial results for the three months ended March 31, 2022. SCI is a global supplier and manufacturer of advanced materials for physical vapor deposition thin film applications who works closely with end users and OEMs to develop innovative, customized solutions.

Jeremy Young, President and Chief Executive Officer, commented, “Our first quarter results, led by record quarterly revenue, represent a strong start to 2022. By comparison, the 2021 first quarter results benefited from a temporary federal tax credit to assist companies during the COVID pandemic, plus a gain on extinguishment of debt.”

Mr. Young added, “Challenges impacting the domestic and global economies increased during the first three months of this year. In addition to persistent supply chain issues and semiconductor shortages, inflationary pressures and international political uncertainties rose sharply since 2021 year-end. These factors contributed to customers placing a greater volume of orders for shipment intra-quarter rather than over historically longer periods of time. We continue to adapt to our customers’ short-term needs and anticipate shipments to remain strong throughout the second quarter.”

Total Revenue

Total revenue increased to a record \$5,326,432 for the three months ended March 31, 2022, from \$3,022,310 a year ago. Higher pricing, primarily attributable to increased raw material costs, and higher volume were key factors in the year-over-year increase.

Customer orders remain strong with continued emphasis on intra-quarter shipments.

Backlog was \$3.0 million on March 31, 2022, versus \$3.3 million at 2021 year-end.

ERC Tax Credit

During each of the first three quarters of 2021, the Company recorded an Employee Retention Credit (ERC). The Company recognized \$256,000 of this federal tax credit in the 2021 first quarter, which included \$151,000 in gross profit and \$105,000 in operating expenses.

Gross profit

Gross profit increased 24% to \$994,101 for the first three months of 2022 from \$803,036 the prior year due to higher volume, product mix and improved manufacturing efficiency. For the 2022 first quarter, gross margin decreased compared to a year ago due to higher raw material costs and \$151,000 of ERC recognized in the 2021 first quarter which reduced cost of revenue for that period.

Operating expenses

Operating expenses (general and administrative, research and development (R&D), and marketing and sales) were \$542,407 for the 2022 first quarter compared to \$377,493 last year. The 2021 first quarter amount directly benefited from an ERC of \$105,000. Excluding the ERC, operating expenses for the 2022 first quarter were approximately 12% above the same period a year ago due to an increase in staff and higher compensation plus travel expenses related to in-person trade shows.

*EBITDA**

Earnings before interest, income taxes, depreciation, and amortization (EBITDA) was \$554,044 for the first three months of 2022 compared to \$865,949 for the same period last year. The 2021 first quarter EBITDA benefited from the ERC (\$256,000) and a gain on extinguishment of debt (\$325,300).

Income Applicable to Common Stock

The 2022 first quarter income applicable to common stock was \$384,401, or \$0.08 per diluted share, compared to \$646,547, or \$0.14 per diluted share, for the 2021 first quarter.

The prior year amount benefited from a \$325,300 gain on extinguishment of debt, and the ERC of \$256,000 pre-tax.

Net Cash and Total Debt Outstanding

Net cash was \$4,646,475 on March 31, 2022, compared to \$3,006,933 on the same date last year and \$4,140,942 at 2021 year-end.

Total debt outstanding was \$219,435 on March 31, 2022, compared to \$243,218 on December 31, 2021, and \$360,179 on March 31, 2021. During the first three months of 2022 the Company made principal payments of \$23,783 related to finance lease obligations.

About SCI Engineered Materials, Inc.

SCI Engineered Materials is a global supplier and manufacturer of advanced materials for PVD thin film applications who works closely with end user and OEMs to develop innovative, customized solutions. Additional information is available at www.sciengineeredmaterials.com or follow SCI Engineered Materials, Inc. at:

<https://www.linkedin.com/company/sci-engineered-materials.-inc>

<https://www.facebook.com/sciengineeredmaterials/>

<https://www.twitter.com/SciMaterials>

*A reconciliation of the differences between the GAAP and non-GAAP financial measure of EBITDA as used in this release with the most directly comparable GAAP financial measures is included in the financial schedules that are a part of this release. This non-GAAP financial measure is intended to supplement and should be read together with our financial results. It should not be considered an alternative or substitute for, and should not be considered superior to, our reported financial results. Accordingly, users of this financial information should not place undue reliance on this non-GAAP financial measure.

This press release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but are not limited to, all statements regarding intent, beliefs, expectations, projections, customer guidance, forecasts, plans of the Company and its management. These forward-looking statements involve numerous risks and uncertainties, including without limitation,

other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings, including the Company's Annual Report on Form 10-K for the year ended December 31, 2021. One or more of these factors have affected and could affect the Company's projections in the future. Therefore, there can be no assurances that the forward-looking statements included in this press release will prove to be accurate. Due to the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company, or any other persons, that the objectives and plans of the company will be achieved. All forward-looking statements made in this press release are based on information presently available to the management of the Company. The Company assumes no obligation to update any forward-looking statements.

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

<u>ASSETS</u>	March 31, <u>2022</u> (UNAUDITED)	December 31, <u>2021</u>
Current Assets		
Cash	\$ 4,646,475	\$ 4,140,942
Accounts receivable, less allowance for doubtful accounts	763,669	531,577
Inventories	1,263,720	1,073,218
Prepaid expenses	202,155	678,357
Total current assets	<u>6,876,019</u>	<u>6,424,094</u>
Property and Equipment, at cost	9,035,000	8,966,488
Less accumulated depreciation	<u>(6,898,040)</u>	<u>(6,809,850)</u>
Property and Equipment, net	<u>2,136,960</u>	<u>2,156,638</u>
Right of use asset, net	252,571	274,298
Deferred tax asset	607,820	663,820
Other assets	88,449	89,552
Total other assets	<u>948,840</u>	<u>1,027,670</u>
TOTAL ASSETS	<u>\$ 9,961,819</u>	<u>\$ 9,608,402</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Finance lease obligations	\$ 97,759	\$ 96,702
Operating lease obligations	99,404	97,292
Accounts payable	345,299	250,383
Customer deposits	1,743,121	1,724,556
Accrued expenses	227,721	348,026
Total current liabilities	<u>2,513,304</u>	<u>2,516,959</u>
Finance lease obligations, net of current portion	121,676	146,516
Operating lease obligations, net of current portion	<u>179,835</u>	<u>205,623</u>
Total liabilities	<u>2,814,815</u>	<u>2,869,098</u>
Total Shareholders' Equity	<u>7,147,004</u>	<u>6,739,304</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 9,961,819</u>	<u>\$ 9,608,402</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

(UNAUDITED)

	<u>2022</u>	<u>2021</u>
Revenue	\$ 5,326,432	\$ 3,022,310
Cost of revenue	<u>4,332,331</u>	<u>2,219,274</u>
Gross profit	994,101	803,036
General and administrative expense	373,188	287,881
Research and development expense	87,031	38,219
Marketing and sales expense	<u>82,188</u>	<u>51,393</u>
Income from operations	451,694	425,543
Gain on extinguishment of debt	-	(325,300)
Interest expense	<u>6,493</u>	<u>7,638</u>
Income before provision for income taxes	445,201	743,205
Income tax expense	<u>60,800</u>	<u>90,620</u>
Net income	384,401	652,585
Dividends on preferred stock	<u>-</u>	<u>6,038</u>
INCOME APPLICABLE TO COMMON STOCK	<u>\$ 384,401</u>	<u>\$ 646,547</u>
Earnings per share - basic and diluted		
Income per common share		
Basic	<u>\$ 0.09</u>	<u>\$ 0.14</u>
Diluted	<u>\$ 0.08</u>	<u>\$ 0.14</u>
Weighted average shares outstanding		
Basic	<u>4,510,276</u>	<u>4,479,823</u>
Diluted	<u>4,538,165</u>	<u>4,506,531</u>

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

(UNAUDITED)

	<u>2022</u>	<u>2021</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 603,992	\$ 452,394
Investing activities	(74,676)	(319,558)
Financing activities	(23,783)	(43,454)
NET INCREASE IN CASH	<u>505,533</u>	<u>89,382</u>
CASH - Beginning of period	<u>4,140,942</u>	<u>2,917,551</u>
CASH - End of period	<u>\$ 4,646,475</u>	<u>\$ 3,006,933</u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

(UNAUDITED)

	<u>2022</u>	<u>2021</u>
Net income	\$ 384,401	\$ 652,585
Interest expense	6,493	7,638
Income tax expense	60,800	90,620
Depreciation and amortization expense	102,350	115,106
EBITDA	<u>554,044</u>	<u>865,949</u>
Stock based compensation expense	23,299	21,888
Adjusted EBITDA	<u>\$ 577,343</u>	<u>\$ 887,837</u>